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December 5, 2016

Ms. Marlene H. Dortch
Secretary
Federal Communications Commission
445 12th Street, SW
Washington, D.C. 20554

**Re: Comprehensive Review of the Part 32 Uniform System of Accounts, WC
Docket No. 14-130**

Dear Ms. Dortch:

On December 1, 2016, representatives from AT&T, CenturyLink, and Verizon met with Commission staff to discuss the elimination of Part 32 obligations for price cap carriers. From AT&T, Linda Vandeloop was present with Bill Roughton, Dan Rhinehart, Val Longo, Jim Dionne, Ron Hilyer, Wayne Kendall, and Chris Groves participating by telephone. From CenturyLink, Tim Boucher and Jeb Benedict were present with Brad Yerger and Marti Gude participating by telephone. From Verizon, Sandy Anderson and Ian Dillner participated in the meeting. Commission staff at the meeting included Deena Shetler, Pam Arluk, Victoria Goldberg, Robin Cohn, Doug Slotten, and Marv Sacks from the Wireline Competition Bureau and Jane Jackson (by telephone) from the Office of the General Counsel.

During the meeting, the parties first discussed how obligations under Section 272(e)(3) of the Act would be unaffected by a shift from Part 32 accounting to GAAP accounting if a GAAP ledger maintained a comparable entry for affiliate transactions subject to the requirement. The imputation of affiliate transactions for the small and shrinking amount of services subject to the requirement would be readily available making compliance a non-issue. We also briefly discussed the lack of an ongoing need for the imputation requirement, including the question posed in the Commission's Notice of Proposed Rulemaking to forbear from the requirement completely.¹

The parties then discussed a framework for transitioning from Part 32 to GAAP accounting for the determination of pole attachment rates. Pole attachment rates, regardless of the underlying accounting methodology, can fluctuate substantially from year to year, but due to increased costs of pole installation and maintenance, are generally expected to increase over time. We discussed how to address the differences in pole attachment rates between the Part 32 and GAAP accounting systems that could affect pole attachment rates. In particular, the parties identified the three primary drivers of differences between Part 32-derived and GAAP-derived pole attachment rates, including: differences in the treatment of cost of removal, different depreciation rates, and differences in returns on investment.

¹ Notice of Proposed Rulemaking, *Comprehensive Review of the Part 32 Uniform System of Accounts*, WC Docket No. 14-130 (Aug. 20, 2014) para. 43.

Cost of Removal. The cost of removal is one of the primary factors impacting pole attachment rates in a switch from Part 32 to GAAP accounting. Under Part 32 accounting, remaining life depreciation rates include an allowance for the projected cost of removal, and when plant is retired, the cost of removal is charged to depreciation reserve. Under GAAP accounting, cost of removal is expensed when incurred. By moving to GAAP, pole attachment rates would experience upward pressure due to the current expensing of cost of removal. The framework we discussed would thus remove cost of removal during a transition period comparable to approximately half the life of a pole – and eliminate any potential argument that a double recovery would otherwise occur.

Depreciation Rates. Additionally, the remaining life depreciation rates set, typically in the late 1990s, under Part 32 are generally and often significantly higher than straight line vintage year depreciation rates used under GAAP. Under the discussion framework, any difference between Part 32 and GAAP would be phased in over the course of a transition period.

Returns on Investment. Further, the use of Part 32 remaining life depreciation rates that include an allowance for cost of removal has led to very low and oftentimes negative levels of net pole investment. This effect has led to a very low or negative return on investment carrying charge component in pole attachment rates. Under lower GAAP depreciation rates net pole investment cannot decrease below zero. Shifting to GAAP, pole attachment rates could increase due to a higher (positive) return on investment carrying charge component.

Potential methodologies to account for the transition were discussed. An illustrative example (attached) was used to facilitate the discussion.

Please do not hesitate to contact me with any questions regarding this matter.

Sincerely,

A handwritten signature in dark ink, appearing to read "Ian Dillon". The signature is written in a cursive, slightly slanted style.

cc: Deena Shetler
Pam Arluk
Victoria Goldberg
Robin Cohn
Doug Slotten
Marv Sacks
Jane Jackson

Attachment

HYPOTHETICAL GAAP-BASED POLE ATTACHMENT RATE DEVELOPMENT

A simple approach that addresses all three of the major drivers of Part 32 to GAAP-Based pole attachment rate difference (depreciation rates, cost of removal, and return on investment) would be to pick a fixed starting point in time and compute pole attachment rates under Part 32 and under GAAP with GAAP cost of removal expense excluded. The difference between these computed rates would form a Transitional Rate Difference that would be applied to adjust (increase or decrease) subsequent annually computed GAAP-based rates.

The Transitional Rate Difference would be eliminated over a time frame approximating half of the GAAP life of poles (10 years in the example below) reflecting the fact that the underlying GAAP pole net book cost at the date of conversion to GAAP accounting would be declining toward zero. At the end of the transition period (Year 11), GAAP cost of removal expense would no longer be removed from GAAP results and pole attachment rates would be developed solely on a GAAP basis.

Table 1 – Hypothetical Cost of Removal Expense Effect

| | |
|---|----------|
| GAAP Pole Rate (inclusive of Cost of Removal) | \$5.68 |
| GAAP Pole Rate (excluding Cost of Removal) | \$5.38 |
| First Year Cost of Removal Difference | (\$0.30) |

Table 2 – Hypothetical Transitional Rate Difference Computation

| | |
|--|----------|
| Part 32 Pole Rate | \$3.40 |
| GAAP Pole Rate (excluding Cost of Removal) | \$5.38 |
| Transitional Rate Difference | (\$1.98) |

Table 3 – Hypothetical Rate Transitions

| GAAP Transition Year | Computed GAAP Rate | Transitional Rate Difference | Effective Pole Rate |
|----------------------|--------------------|------------------------------|---------------------|
| Last Part 32 Rate | | | \$3.40 |
| Year 1 | \$5.43 | (\$1.78) | \$3.65 |
| Year 2 | \$5.60 | (\$1.58) | \$4.01 |
| Year 3 | \$5.37 | (\$1.39) | \$3.99 |
| Year 4 | \$5.48 | (\$1.19) | \$4.29 |
| Year 5 | \$5.43 | (\$0.99) | \$4.44 |
| Year 6 | \$5.64 | (\$0.79) | \$4.85 |
| Year 7 | \$5.47 | (\$0.59) | \$4.88 |
| Year 8 | \$5.58 | (\$0.40) | \$5.19 |
| Year 9 | \$5.53 | (\$0.20) | \$5.33 |
| Year 10 | \$5.58 | (\$0.00) | \$5.58 |
| Year 11 (Allow CoR) | \$5.41 | \$0.30 | \$6.01 |